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Wednesday, July 2, 2008

County deficit could reach \$240M next year, leaders say

by Janel Davis | Staff Writer

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New budget estimates show Montgomery County's fiscal problems have grown by \$20 million, fulfilling predictions by county leaders that the declining economy would hurt county coffers.

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County budget officials estimate a deficit for next fiscal year has grown from \$220 million to \$240 million.

The deficit adds another year to the county's financial difficulties, similar to those which have plagued all levels of government, as well as another year of belt tightening and possible budget cuts and tax increases.

Leggett reduced a \$401 million deficit to \$297 million for the current fiscal year — which began Tuesday — with a county savings plan.

He recommended closing the remaining gap by exceeding the charter limit on property tax collections, an ambulance fee, and other department cuts. A different mix of council cuts and budget changes left the current property tax rate in place, delayed the ambulance fee, requested \$8 million in savings from the county and school system, added an energy tax and used money used cash from the construction money to balance the budget.

For council members, their changes in May represented a more reasonable option than Leggett's recommendation.

"The deficit is a lot deeper than \$200 million," Timothy L. Firestone, the county's chief administrative officer, said at that time. "The actions done in this budget that was just passed takes us up to at least \$250 million."

But the majority of the money problems can be traced back to the economy and market costs, not the council's budget actions, said Joseph F. Beach, the county's budget director.

"They contributed to [the gap] but some of the underlying causes were already in place," Beach said. "The thing right now is looking at economic signs like employment, the housing market and things like that. It's not looking great, but it's difficult to draw any conclusions about the budget before you can review the numbers and their impacts."

With the economy still in the doldrums and fiscal calendars flipping over this week, the county's budget gurus are already focused on how to close a gap 12 months away.

A council committee this week signaled its intentions to seek fiscal information from county departments earlier so it can set spending limits later.

"Clearly we are expecting revenue that is not on the high end, and we certainly recognize that next year's budget cycle will be a difficult one," said Councilwoman Duchy Trachtenberg (D-At large) of North Bethesda, chairwoman of the council's finance committee. "It wouldn't surprise me if at the end of the calendar year, we won't have to look at more program savings, and a possible mid-year savings plan, which are what we try to do in a difficult deficit situation."

Before county leaders can solve the fiscal 2010 conundrum, they must find \$8 million in savings from the current

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budget. Part of that savings will likely come from an early retirement incentive plan offered to county employees. By Tuesday morning, 149 county employees had signed up for the \$25,000 buyout; human resources officials had estimated 100 would apply. Under previous estimates, 100 employees retiring would result in about \$5 million in savings.

“We initially had 300 employees express interest in the program,” said Joseph Adler, the county’s human resources director.

Employees who changed their minds did not offer reasons, but the economy may have played a part on some of their decisions, Adler said.

“The difficulty that these governments are facing is that the economy in [calendar] year 2010 is projected to be pretty good, so fiscal 2011 may look better,” said Stephen S. Fuller, director of the Center for Regional Analysis at George Mason University. “Government revenues lag the economy a year, but expenses don’t. There are also unfunded mandates that will put more burdens on the county; as well as inflation, which is higher than what we’re used to, and then there is normal maintenance and repair.”

In a “standstill” or no-growth budget, expenses increase about 6 percent a year, and one-half to two-thirds of that is inflation, Fuller said. Therefore, governments must still spend money just to stay even, he said.

For most jurisdictions the answer is to continue monitoring expenses and reining in spending until the next budget cycle begins in the spring, Fuller said.

But with numbers constantly changing, combating the problem is difficult, said Marvin Weinman, president of the Montgomery County Taxpayer’s League.

“The numbers keep changing, and do you really want to hang your hat on a number?” Weinman asked.

Within a few years, county officials should be able to hang their hats on an improving economy.

“[Fiscal] 2011 will be much easier,” Fuller said. “Not like the times in 2004 and 2005 when we were living on money we didn’t have, but it’s going to be sort of an okay time. It will allow local and state spending to increase some, but before than fiscal 2009 and 2010 will be difficult.”



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